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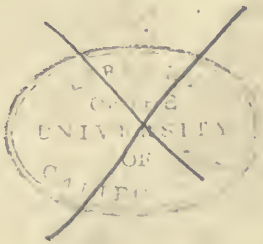
CHICAGO RAILWAYS COMPANY.

REPORT OF HENRY A. BLAIR, CHAIRMAN,
TO THE BOARD OF DIRECTORS,
DATED APRIL 23, 1913. 1913



NOTE: By resolution of the Board of Directors of Chicago Railways Company, adopted April 23, 1913, the within report was received and a copy thereof was directed to be mailed to each holder of participation certificates, together with a copy of the fifth annual report of the company.

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CHICAGO, ILL., April 23, 1913.

To the Board of Directors
of the Chicago Railways Company.

GENTLEMEN:

In connection with the Fifth Annual Report of the Chicago Railways Company, covering the fiscal year commencing February 1, 1912, and terminating January 31, 1913, copies of which have been printed and are now ready for distribution, I desire, as Chairman of your Board, to submit the following:

As indicated by its title, this report covers the fifth year of the operation of your company, and the results of that operation for the past fiscal year as compared with those of previous years are most gratifying as they show a large increase in gross receipts, a substantial reduction in expenses and a very large increase in actual net income.

This report, however, as well as the reports for previous years, will be more fully comprehended when studied in connection with a statement as to the obligations of your company under its ordinance from the City of Chicago.

ORDINANCE REQUIREMENTS AFFECTING THE FINANCIAL OBLIGATIONS OF THE COMPANY:

Under Section 16 of the ordinance of February 11, 1907, your company is obligated in each year to expend for maintenance and repairs at least a sum equal to six per cent. of the gross receipts for that year, and if the said amount is not so expended for the said purpose by

the company during any one year, then at the end of such year the unexpended portion thereof must be deposited in a fund, with one or more of the banks or trust companies authorized under the ordinance to act as depositaries of such funds, for the purpose of being used whenever necessary for such maintenance and repairs.

By the terms of the same Section 16 the company is further obligated on or before the fifth day of each month of each year to deposit with one or more of the said depositaries in a separate fund, a sum equal to eight per cent. of the gross receipts of the preceding month to provide a reserve fund for taking care of renewals and depreciation of the street railways and other property of the company. Out of this renewal reserve fund the Board of Supervising Engineers, provided for by the ordinance, is from time to time to authorize the repayment to the company of such amounts as it shall have paid out for renewals of said street railway and other property, and the portion of said fund remaining unexpended is to continue in said fund as a provision for future renewals.

Under Section 18 of the same ordinance the company is obligated to pay, as a part of its operating expenses, all damages arising or growing out of injuries to persons or to the property of others incident to the construction or reconstruction or operation of its street railway system, and the company is obligated to set aside as a separate fund such percentage of the gross receipts of the company as the Board of Supervising Engineers shall estimate to be sufficient to protect the company against such claims, to the end that if the City or its licensee shall elect to purchase the street railway property of the Company, as provided by the ordinance, there shall then

be available to the Company a fund sufficient to meet and discharge all legitimate claims for such damages.

By Section 25 of the same ordinance the Company on or before the 10th day of April in each year is to come to an accounting and settlement with the City as of the 31st day of January last preceding on the following basis:

From the gross receipts of the said street railway system and property of the Company from all sources and of every kind, for the year ending on the said 31st day of January, there shall be deducted for said year:

First, (a) all expenses of operation, including maintenance, repairs and renewals; (b) all amounts contributed during said year and then held in reserve under the provisions of Sections 16 and 18 of said ordinance, heretofore mentioned; (c) all amounts paid out for taxes and assessments levied or imposed upon the real and personal property of the Company, including all capital stock or franchise taxes; (d) all salaries or expenses of the Board of Supervising Engineers authorized by the terms of the ordinance, and

Second, a sum equivalent to five per centum per annum for said year upon the amount of the cash purchase price which the City would then be obligated to pay in case it should purchase the property pursuant to the provisions of said ordinance if purchasing the same for municipal operation.

The amount payable by the City in case of purchase is determined by Section 20 of said ordinance and by virtue of this section the City of Chicago has the right upon the first day of February or upon the first day of August in each and every year, upon giving at least six months' previous notice in writing of its intention so

to do, to purchase and take over (but only for municipal operation in case of purchase prior to February 1, A. D. 1927) the entire street railway system of the company within the City, and in case of said purchase the City is obligated to pay for the same the aggregate of the following items:

1. The value of the property originally taken over by the Chicago Railways Company as the same existed on June 30, 1906, which valuation was determined to be the sum of $29,000.000.

2. The value of any and all property and equipment and additions thereto supplied, purchased or acquired by the Receivers of the Chicago Union Traction Company as a part of the said street railway system, including tunnel reconstruction, between the 30th day of June, A. D. 1906, and February 1, A. D. 1907, as determined by the Board of Supervising Engineers, which value has been determined by said Board to be the sum of $1,779,874.94.

3. The cost of reconstruction and re-equipment of the street railway lines of the Company and of the construction of new lines and extensions, underground trolleys, tunnel reconstruction, and other additions to property, actually paid by said Company at and prior to said purchase by said City and certified by the Board of Supervising Engineers, or incurred for work actually done or materials furnished with the approval of said Board under completed or pending contracts, together with the percentages thereon as in Section 7 of the ordinance provided, and all amounts which shall then have been contributed by the Company to the City for the construction of subways or extensions thereof.

The cost of construction, reconstruction, re-equipment,

extensions and additions to plant and property mentioned in this paragraph, with percentages added, as determined and certified by the Board of Supervising Engineers, was on January 31 last, $46,708,585.74, so that if the City had given notice according to the ordinance and had made the purchase of the property of the Company on January 31, 1913, it would have been obligated to pay therefor the aggregate of the following four items:

(a) The value of the property fixed by the ordinance as originally taken over by the company as of the date of June 30, 1906.....	$29,000,000.00
(b) The value of additions to property between June 30, 1906, and February 1, 1907, as determined by the Board of Supervising Engineers..	1,779,874.94
(c) The cost of construction and reconstruction, with percentages added, as determined by the Board of Supervising Engineers between February 1, 1907, and February 1, 1908.....	1,809,172.08
(d) The cost of construction, reconstruction, equipment, extensions and additions to plant and property, with percentages added, as determined by the Board of Supervising Engineers, between February 1, 1908, and January 1, 1913.....	44,899,413.66
	$77,488,460.68

After the deduction from the gross receipts of the items authorized by Section 25 of the ordinance hereinbefore mentioned, the ordinance provides that the amount remaining shall be considered as the net receipts for such year arising from the operation of the street railway system of the Company and shall be divided between the Company and the City in the proportion of 55% to the City and 45% to the Company.

It will thus be observed that the only money available to the Company (after payment of operating expenses, amounts contributed to the reserve funds provided for in Sections 16 and 18 of the ordinance, and taxes) for the payment of its interest and other obligations and as dividends upon its capital stock, is (1) five per cent. upon the valuation at which the City is authorized to pur-

chase the street railway property, and (2) its 45% of the divisible net receipts ascertained as above stated.

The rights of the Company as to percentages on account of its construction, reconstruction, re-equipment, extensions and additions to its plant and property, are set forth in Section 7 of the same ordinance. By this section it is provided that the Company shall purchase materials and equipment, employ engineers, superintendents, clerks, foremen and workmen and shall pay all expenses of every nature, including legal expenses, necessary to the proper completion and prompt performance of the work of construction, reconstruction, re-equipment, extensions and additions to plant and property provided for or required by the ordinance or the exhibits thereto, upon the lowest advantageous terms and subject to the approval of the said Board of Supervising Engineers; and that to the actual amount paid by the Company in and about carrying out each and all of the requirements of this Section 7 shall be added ten per cent. of such amount as a fair and proper allowance to the Company for conducting the work and furnishing the equipment, and five per cent. for its services, including brokerage, in procuring funds therefor, except that no such percentages shall be allowed on the cost of reconstructing the Van Buren street tunnel, as provided in the first paragraph of Section 34 of the ordinance, or of lowering and removing obstructions to navigation in the Chicago River under the ordinance of the City of Chicago relating thereto, passed June 18, A. D. 1906.

AMOUNT AND DISPOSITION OF PERCENTAGES ALLOWED TO THE COMPANY UNDER AUTHORITY OF SECTION 7 OF THE ORDINANCE UPON THE COST OF CONSTRUCTION, RECONSTRUCTION, RE-EQUIPMENT, EXTENSIONS AND ADDITIONS TO PLANT AND PROPERTY.

Up to January 31, 1913, the Board of Supervising Engineers have authorized the following certificates:

		% thereon	Total
For Work done	$37,281,166.65	$5,496,734.58	$42,777,901.23
For Chicago Consolidated Traction property acquired pursuant to ordinance of October 10, 1910.....	3,930,684.51		3,930,684.51
	$41,211,851.16	$5,496,734.58	$46,708,585.74

An amount of $45,955,000 of First Mortgage Bonds has been authorized for the above total. Of these bonds the Company still owns $500,000, held by the Harris Trust and Savings Bank, pursuant to the requirement of the bankers, as security against any judgment recovered or which possibly could be recovered against the Company in the litigations hereinafter mentioned. Of said First Mortgage Bonds $3,900,000 thereof were given in part payment for the Consolidated Traction property inside the City limits, and the remainder, viz.: $41,555,000, have been sold.

These Bonds were sold as follows:

Cash	Discount	Total Bonds
$38,068,149.61	$3,468,850.39	$41,555,000

The Company's profit and the 15% allowed on construction expenditures, namely, $5,496,734.58. In marketing the bonds which it sold, namely, the above $41,555,000, it had to allow a discount of $3,486,850.39. Therefore the profit of the Company to date has been $5,496,734.58 less $3,486,850.39, or $2,009,884.19. As a part of the last mentioned amount, the Company still has unsold $500,000

of bonds. If these bonds are sold at par the final profit will be as above. If they are sold at a discount the profit will be reduced by the discount on the $500,000.

As relating to the profits of the Company, the 15% allowed, $5,496,734.58, has been disposed of as follows:

Credited to Interest and Discount.....$3,676,781.94

The balance has been used to write down the excess value of the property carried on the books over the City valuation.

In this connection it should be observed that a large amount of expenses was incurred settling damage claims and providing for other expenses of the receivers not covered by the plan of reorganization, thus increasing the amount of the actual debt of the Company in addition to the large excess already existing on account of the amount of the funded debt as hereafter explained.

EXCESS OF FUNDED DEBT OVER AMOUNT OF VALUATION AT WHICH CITY HAS RIGHT TO PURCHASE:

In carrying out the plan of reorganization of October 15, 1907, it was necessary to incur a large funded debt represented by (1) First Mortgage or Rehabilitation Bonds covering the expenditures, with percentages added, as determined by the Board of Supervising Engineers, from February 1, 1907, to February 1, 1908, aggregating, as heretofore set forth, $1,809,172.08, and (2) Consolidated Mortgage Bonds and collateral notes and income obligations representing amounts exchanged for the funded and other indebtedness of predecessor companies according to said plan, and cash requirements necessary to permit of the carrying out of the plan of reorganization, aggregating $36,390,175.30. The total of this funded indebtedness (excluding bonds deposited as collateral to

collateral notes) existing as of the date of February 1, 1908, was as follows:

First Mortgage	$ 1,809,172.08
Consolidated Mortgage:	
Series A	9,332,800.00
Series B	16,910,575.00
Series C	3,185,446.58
5-Year 6% Collateral Notes	5,976,000.00
5-Year 5% Collateral Notes	500,000.00
Collateral and Income Obligations	485,353.72
NET FUNDED DEBT	$38,199,347.38

The price at which the City could have purchased on February 1, 1908, was $32,589,047.02, made up as follows:

Value of the property fixed by the ordinance as originally taken over by the Company as of the date of June 30, 1906	$29,000,000.00
The value of additions to property between June 30, 1906, and February 1, 1907, as determined by the Board of Supervising Engineers	1,779,874.94
The amount allowed, with percentages added, as determined by the Board of Supervising Engineers as the cost of construction and reconstruction for the period between February 1, 1907, and February 1, 1908	1,809,172.08
	$32,589,047.02

It will be noted from the above that while the net funded debt of the Company on February 1, 1908, was $38,199,347.38, the price at which the City under the ordinance was entitled to purchase the property as of the same date was only $32,589,047.02. In other words, the excess of the net funded debt over the amount at which the City was then entitled to purchase was the sum of $5,610,300.36.

As hereinafter explained, it became necessary to acquire the property of the Chicago Consolidated Traction Company inside the city limits of the City of Chicago. This property was acquired by the Company pursuant to the terms of an ordinance of the City Council of the City of Chicago to your Company, passed October 10, 1910. By the terms of that ordinance the Company was allowed as

a credit upon its capital account only the value as of November 1, 1909, of the physical assets acquired, as determined by Messrs. Bion J. Arnold and George Weston, plus the value as determined by the Board of Supervising Engineers of additions and improvements made between November 1, 1909, and December 6, 1910, the date of the acceptance of the last named ordinance by the Company. The amount determined by Messrs. Arnold and Weston as the value of the physical assets as of November 1, 1909, was $3,930,684.51, and the value of additions and improvements made between November 1, 1909, and December 6, 1910, as determined by said Board of Supervising Engineers, was $91,297.50. It was necessary in addition thereto, in order to acquire complete title, to issue and deliver certain mortgage bonds, to wit:

Consolidated Mortgage Series "B" Bonds	$ 270,000
Purchase Money Mortgage Bonds	4,073,000
Adjustment Income Bonds	2,500,000
	$6,843,000

This $6,843,000 was an addition to the excess of funded debt over the price at which the City is entitled to purchase the property of the Company. The aggregate of the original excess of $5,610,300.36, and the last mentioned sum of $6,843,000, together with other items herein next mentioned, has been reduced by payments and by application of the sinking fund provision relating to Consolidated Mortgage Bonds, so that the total excess of funded debt over the amount at which the City could have purchased on February 1, 1913, is $9,955,003.87.

Under the original plan of reorganization sufficient provision was not made to pay all of the debts which were charged against the receivership and which, under the order of the Federal Court in which the receivers were appointed, the Railways Company was required to

pay. These items included personal injury suits and claims, materials and supplies furnished, claims for labor, moneys due to employes, etc., the effect of which was to increase excess of debts, funded and floating, above the price at which the City is entitled to purchase, but by the application of the sinking fund, and by the application of the percentages earned upon construction, reconstruction and equipment not used to pay discount on bonds, has been reduced so that the excess on February 1, 1913, was, as above stated, $9,955,003.87.

The sinking fund provision above referred to is found in the mortgage securing the Consolidated Mortgage Bonds. It provides for the application annually of $250,000 in the reduction of the mortgage debt represented by Series "C" bonds and Series "A" bonds used for the purposes required by the plan to be satisfied with Series "C" bonds.

The price at which the City could purchase on February 1, 1913, was $77,488,460.68, while the amount of net funded debt on the same date was $87,443,464.55, made up as follows:

First Mortgage Bonds	$45,455,000.00
Consolidated Mortgage Bonds:	
Series "A"	15,861,800.00
Series "B"	17,160,475.00
Series "C"	2,119,336.22
Purchase Money Mortgage Bonds	3,969,620.00
Adjustment Income Mortgage Bonds	2,379,233.33
5-Year Collateral 5% Notes	498,000.00
	$87,443,464.55

It is necessary in analyzing the report in question to bear in mind this important fact of the excess of funded debt above the amount at which the City is entitled to purchase the property, because, after payment of operating expenses, contributions to reserve funds and taxes, the only funds available to the company for the payment

of its interest obligations and dividends is five per cent. upon the valuation at which the City is entitled to purchase and the company's share of the divisible net receipts (45 per cent.).

As shown by the report in question, the total net income of the Company for the last fiscal year, after deducting operating expenses and taxes, funds contributed to renewals, and 5 per cent. upon the valuation at which the City is entitled to purchase the property, was $2,569,-825.94, but under the terms of the ordinance the City was entitled to receive 55 per cent. of this net income, or $1,413,404.26, while the Company had to be content with 45 per cent. thereof, or $1,156,421.68.

As before stated, the valuation at which the City on January 31 last was entitled to purchase the property of the Company was $77,488,460.68, while the funded debt of the Company on the same day was $87,443,464.55 (all bearing interest at five per centum per annum, excepting only $6,348,853.33 at four per cent.), or an excess of $9,955,003.87 above the said valuation, and it will therefore be readily perceived that the five per cent. on the valuation retained by the Company is insufficient to pay all the interest on its funded debt by the interest upon the said excess of $9,955,003.87, to say nothing of (1) $250,000 necessary every year to be applied to the sinking fund in redemption of consolidated mortgage bonds, or (2) non-partnership expenses—that is to say, expenses not recognized by the City in the settlement of accounts with it. The City only recognizes expenses incurred in the actual operation of the road and excludes from the account (1) all moneys paid to the City as its share of interest on daily balances; (2) all moneys paid to trustees in trust deeds for paying interest on bonds; (3) fees

to trustees for acting as such; (4) fees to trustees for certifying bonds; (5) fees to trustees for paying coupons on collateral notes; (6) expenses of litigation affecting the interest of the Company in which the City is not interested, including attorneys' fees, cost of records, briefs, etc.; (7) engraving of bonds; (8) advertisements of any kind relating to bonds or relating to participation certificates and expenses of that character. All of these expenses, including the interest upon the excess of funded debt above the valuation at which the City can purchase and the $250,000 per annum necessary for sinking fund redemption are necessarily paid out of the Company's 45 per cent. of the divisible net receipts.

In this connection, some criticism has been made upon the item in the non-partnership account of $120,573.81, corporate expenses and adjustments. This item is a part of the non-partnership account and embraces in substance $33,639.65, representing the expenditures to trust companies for commissions, paying interest on bonds, trustee's fees, certifying bonds, expenses for engraving bonds, traveling expenses and similar corporate expenses, the remainder, viz: $86,934.16, is the interest accruing to the joint account with the City on daily cash balances as prescribed by the ordinance. It is included in the income of the joint account and charged against the non-partnership account, the latter account receiving credit for the actual interest earned on these cash balances in the bank. The method of calculating this interest accruing to the joint account has been to take two per cent. of the daily receipts less seventy per cent. for operating. The $86,-934.16 also includes interest on the payments into the Damage Reserve Fund, as prescribed under the ordinance.

All of the foregoing interest is a charge against the non-partnership, but is offset by the interest earned by the non-partnership on the deposits in bank, which, as shown in the income account of the annual report, is $122,775.36.

The non-partnership also receives through its 45 per cent. of the net earnings that portion of the interest earned by the joint account.

CASH AND CASH ITEMS AS SHOWN ON GENERAL BALANCE SHEET OF REPORT:

Some comment has heretofore been made on similar previous reports as to the large amount of cash and cash items shown on hand. In the balance sheet shown in the report for the last fiscal year, there appears as "cash and cash items" the sum of $5,984,680.98. The itemization of this $5,984,680.98 is as follows:

Merchants Loan & Trust Co., Trustee of Sinking Fund....$	109.32
Merchants Loan & Trust Co., Special Cash Account.....	54,363.42
Union Trust Company, Special Cash Account.....	38,549.55
Illinois Trusts & Savings Bank Dividend a/c.....	5,059.32
Illinois Trust & Savings Bank, Renewal Reserve Fund.....	982,291.43
Harris Trust & Savings Bank, Special Construction a/c derived from sale of bonds.....	1,000,000.00
Cash—General Fund	3,828,615.48
Receiving Clerks (cash collections of Jan. 31, 1913).....	48,392.46
Petty cash with Secretary.....	1,000.00
Deposit with General Supervisor.....	800.00
Deposit in Claim Department.....	25,000.00
City of Chicago, Deposit.....	500.00
	$5,984,680.98

The inference has been indulged by certain critical persons that these items indicated possession by the company of large amounts of funds which might be devoted to dividends. These critics forget that these cash items include the City's share of undivided net receipts, amounts attributable to reserve funds, accrued sinking fund, accrued interest and accrued taxes.

The net surplus as shown by the balance sheet is, as stated therein, $435,511.53.

The report as submitted has been verified by the expert accountants acting for the City and the Company, and there is no doubt of its entire accuracy, and with the explanations here given it should be a comparatively easy matter for anyone to determine that the surplus as shown for the last current year is correctly given in said report, and it should also be easy to understand why the amount of such surplus is only a little over one-third of the company's share of the divisible net receipts.

REHABILITATION, RE-EQUIPMENT AND EXTENSIONS:

The work of rehabilitation, re-equipment and extensions to January 31, 1913, represents the following construction:

(1) 296.16 miles single track rehabilitated.

(2) 50.63 miles of single track for new extensions.

(3) K. W. Capacity installed in power stations and new substations, 52,000 K. W.

(4) In electric transmission there have been constructed 795 miles of single duct; 620 miles of Lead Covered cable, 346 miles of auxiliary cable; 433 miles of overhead feeder; 286 street miles of poles; 479 miles of trolleys.

(5) Cars constructed by Pullman Co. in 1909..... 600
Steel cars 50
Cars constructed by Pullman Co. in 1910..... 350
Reconstructed cars, St. Louis type..... 328
Cars constructed in shops of Company in 1912, turtle back type 215
Chicago Union Traction Company cars, rebuilt as Pay-as-you-enter type 39
Construction cars 2

Total 1584

(6) New car stations constructed at — Car capacity
Lincoln avenue 164
25th and Leavitt streets..... 142
Kedzie avenue 321
Limits Barns 93
Lawndale Barns 233
48th and North avenues..... 158

Total 1111

(7) Old car stations, reconstructed:	Car capacity
Armitage avenue	105
Noble street	78
Division street	100
Elston avenue	81
Devon avenue	180
Total	544

(8) Power Houses converted into Sub-stations:
Milwaukee avenue Cable Station
Van Buren street Cable Station
Edgewater power house electric station

(9) New Sub-stations constructed:
#1 Van Buren street sub-station
#2 Milwaukee avenue sub-station
#3 Lill avenue sub-station
#4 Blue Island avenue sub-station
#5 Grand avenue sub-station
#6 Illinois street sub-station
#7 Evanston avenue sub-station

Van Buren street, Milwaukee avenue and the Evanston avenue sub-stations have been located in the old power houses. The Lill avenue sub-station, the Blue Island avenue sub-station, the Grand avenue and Illinois street sub-stations are entirely new sub-stations.

Added to the capacity of shops, 268,700 square feet of buildings. Added to shop machinery, 415 machines and motors with floating tools.

The cost of the rehabilitation, re-equipment and extensions to January 31, 1913, with percentages added and as determined by the Board of Supervising Engineers, has aggregated the sum of $46,708,585.74, distributed as follows:

Amount allowed by City of Chicago as purchase price of physical assets of that part of Chicago Consolidated Traction Company property inside the limits of Chicago to be paid by Chicago Railways Company and charged to Capital Account, as provided by Ordinance of October 10, 1910, and being the value fixed by Bion J. Arnold and George Weston, as of November 1, 1909....		$3,930,684.51
Amount certified by the Board of Supervising Engineers, as per terms of Ordinance of October 10, 1910, as value of additions and improvements added to physical assets aforesaid, from November 1, 1909, to December 6, 1910, date of acceptance of said Ordinance of October 10, 1910.....		91,297.50
Amount expended on rehabilitation work and extensions:		
Track Work	$19,348,791.80	
Electric Lines	4,593,651.66	
Rolling Stock	9,640,150.47	
Real Estate and Buildings.....	4,154,398.93	
Power House and Sub-station Equipment	1,225,699.27	
Stores and Supplies.....	974,844.77	
Tunnels and Bridges.....	2,749,066.83	42,686,603.73
Total		$46,708,585.74

In addition to the expenditures included in said sum of $46,708,585.74, the Company has been permitted by the Board of Supervising Engineers, pursuant to the terms of the ordinance, to withdraw from the renewal fund and expend in the way of renewals up to February 1, 1913 the sum of $2,509,461.59. In this connection it must be remembered that the renewal fund according to the terms of the ordinance did not commence until after the expiration of the three-year immediate rehabilitation period which terminated January 29, 1911, and the expenditures covered by said $2,509,461.59 were all made between February 1, 1911, and February 1, 1913. The amounts so withdrawn from the renewal fund were expended and distributed as follows:

1. Money used by the Electric Department in the redistribution of feeders, work in old power houses, renewals of trolleys, etc.	$ 320,360.01
2. Amount used by Building Department in reconstruction of car stations, buildings, etc.	143,675.98
3. Amount used by the car shops in rebuilding cars, changing into Pay-as-you-enter type	635,240.11
4. Amount used by the Track Department in renewal, rehabilitation	911,416.43
5. Amount used by the Tunnel Department	3,345.07
6. Miscellaneous amounts, including principally amounts paid to Board of Supervising Engineers on rehabilitation work, and depreciation account on power	495,423.99
Total	$2,509,461.59

Treating the last fiscal year separately, the Company during that period has rehabilitated 21.32 miles of single track and made extensions amounting to 18.01 miles of single track. The Company now owns 487.11 miles of single track, distributed as follows:

	Miles.
Tracks of the Chicago Union Traction System	306.48
Tracks of the Chicago Consolidated Traction Company within the limits of Chicago, purchased by the Company	124
Suburban street railroad tracks contained within the limits of the City of Chicago purchased by the Company	6
Extensions since June 30, 1906	50.63
	487.11

For the last fiscal year the cost of rehabilitation, reequipment and extensions, plus percentages, is as follows:

Departments	Expenditures plus 15%
Electrical	$ 165,362.78
Electrical Equipment Sub-station	13,732.30
Miscellaneous Power House Equipment	340.00
Buildings	24,131.39
Deferred Bills, Building	13,251.61
Car Shops, Construction of Cars	1,115,677.19
Track Department	1,612,974.63
Tunnels	417,788.47
Miscellaneous	58,690.84
	$3,421,949.21

During the same fiscal year the expenditures from funds derived from the Renewal Fund, are as follows:

Departments	Renewals Expended February 1, 1912, to February 1, 1913
Electrical	$ 58,893.51
Electrical Equipment, Sub-stations	4,231.70
Miscellaneous Equipment, Power House	18,550.01
Building	24,192.32
Car Shops	255,217.04
Track	333,269.18
Tunnels	3,345.07
Miscellaneous	465,746.92
	$1,163,445.75

There have been rehabilitated in all since June 30, 1906, 296.16 miles of single track. The new extensions as aforesaid made since that date aggregate 50.63 miles of single track. Of the said 487.11 miles there still remains not rehabilitated old tracks of the Chicago Union Traction Company System, the Chicago Consolidated Traction system within the limits of the City of Chicago, and the tracks of the Suburban Railroad Company within the same limits, 140.32 miles of single track.

It is contemplated during the present fiscal year that the Company will rehabilitate 43 miles of old track and will make extensions of 8 to 12 miles of single track. The above does not include tracks in barns, shops and yards, nor special work at crossings and upon curves.

In explanation of the item of 6 miles of track formerly belonging to the Suburban Railroad Company, it should be said that the City Council of the City of Chicago during the last fiscal year urged upon the Company the acquisition of these tracks, being tracks in 52nd avenue from 12th street north to a point near Lake street, and in Harrison street from South 48th avenue to South 60th avenue, and pursuant to an ordinance of the City Council of the City of Chicago passed December 16, 1912, and ac-

cepted January 3, 1913, directing such acquisition, providing for the immediate rehabilitation of Harrison street between the avenues aforesaid, the Company acquired from the receiver of the Suburban Railroad Company the 6 miles of single track above mentioned, paying therefor the price determined by the Board of Supervising Engineers as the scrap value of the track and electrical equipment, amounting to $22,554.43.

During the same period the Company added to its passenger car equipment 204 closed double truck cars and also completely rebuilt 52 double truck cars, equipping them with new trucks, new motors and all equipment; and also added 3,000 K. W. capacity to its substations.

During the same year the work on the Washington street and the LaSalle street tunnels was finally completed and both of said tunnels are now in operation.

DECLARATION OF DIVIDENDS.

Some criticism has been made upon the fact that the amount declared as dividends by the Company has not been received in full by the certificate holders entitled to dividends.

The modified plan of reorganization and readjustment of October 15, 1907, provided, among other things, that the stockholders of the Chicago Railways Company should make the capital stock of the Company ($100,000) the subject of an issue of participation certificates representing in the aggregate 265,100 parts, divided into Series 1 of 30,800 parts, Series 2 of 124,300 parts, Series 3 of 60,000 parts and Series 4 of 50,000 parts. Pursuant to this requirement of such plan, an agreement dated as of the 1st day of August, 1907, was entered into between Adolphus C. Bartlett, Chauncey Keep, Charles H. Hul-

burd, Albert A. Sprague and Charles G. Dawes, holders of certificates endorsed in blank for transfer, for and representing all the shares of the capital stock of Chicago Railways Company, of the first part, the same parties as depositaries, of the second part, Central Trust Company of New York as custodian, of the third part, and the holders from time to time of participation certificates issued and to be issued under said agreement, of the fourth part. Pursuant to this agreement, the participation certificates of the different series were issued, and each certificate is subject to all the terms and conditions of said agreement. By section 1 of article 2 of this agreement it is provided that all dividends paid and income realized on or from the deposited securities (stock of the Company), unless paid directly on the order of the depositaries, shall when and as the same shall be received by them, or for their account, be deposited as provided in the agreement, and after deducting therefrom the compensation and expenses of the depositaries and the custodian as authorized in the agreement, the same shall be distributed *pro rata* to and among the holders of participation certificates in the order provided in said agreement, payment being first made of Series 1 and then to the other series in succession to the extent that the amount paid shall be sufficient for those purposes.

The agreement further provided for the appointment by the depositaries of registrars for the participation certificate and transfer agents as well as the appointment of a trust company to hold the stock, giving proxies thereon to the depositaries. Pursuant to these provisions the depositaries appointed the Harris Trust and Savings Bank, the Illinois Trust & Savings Bank, both of Chicago, and the Central Trust Company of New York, as

registrars and transfer agents, and designated the Chicago Title & Trust Company as Trustee, and compensation to all of these trust companies and banks is, of course, necessary to be paid or otherwise there would be no machinery for the transfer of certificates.

The depositaries therefore, upon the receipt of the dividends from the Company, deducted (1) their own compensation, (2) the fees of the above named registrars and transfer agents, and (3) the fee of the Chicago Title & Trust Company as Trustee of the stock, and the remainder was made the subject of distribution to the participation certificate holders according to the terms of the agreement.

PROPERTY OF THE CHICAGO CONSOLIDATED TRACTION COMPANY WITHIN THE LIMITS OF THE CITY OF CHICAGO ACQUIRED BY THE COMPANY PURSUANT TO THE ORDINANCE OF OCTOBER 10, 1910.

The acquisition of this property by the Company has been to some extent criticised on account of the price paid therefor, although as a matter of fact the Company acquired the same on the best terms obtainable.

The necessity which compelled the acquisition by the Company of the property of the Chicago Consolidated Traction Company within the limits of the City of Chicago cannot be stated more fully or accurately by me than I have heretofore done in my circular letter to the certificate holders, dated July 22, 1912, and at the risk of lengthening this report beyond my original intention, I quote from that report as follows:

> "The obligations in relation to the Chicago Consolidated Traction Company imposed upon the Chicago Railways Company by Section 24 of its ordi-

nance were far from satisfactory and were only accepted because, despite most earnest effort, less stringent provisions were unattainable.

The City Council was immovable in its requirements (1) that the system of street railways in Chicago controlled by the Chicago Consolidated Traction Company should be practically, so far as the traveling public was concerned, treated as a part of the street railway system of the Chicago Railways Company; (2) that for a single five-cent fare a passenger could, through transfer, obtain a continuous passage in one general direction over the lines of railway of the systems of both the Chicago Railways Company and the Chicago Consolidated Traction Company in Chicago; (3) that, at its own expense, and not out of its receipts from street railway operation, the Chicago Railways Company should secure the right to operate its cars over such parts of the system of the Chicago Consolidated Traction Company as should be embraced in the through routes specified in the ordinance, or that might thereafter be specified according to the ordinance, and (4) that the old operating arrangements between the Union Traction System and the Chicago Consolidated Traction System should be continued, provided, first, that they should be terminable upon six months' notice by the City, and, second, that in case of purchase by the City, or its licensee, of the property of the Chicago Railways Company, as was permitted by the ordinance, such property should be transferred free from such operating arrangements.

This Section 24, as counsel for the Company argued to the local Transportation Committee when the section was under consideration, menaced the very life of the Chicago Railways Company, because with the Chicago Consolidated Traction System in the hands of hostile interests, the Chicago Railways Company could not perform the conditions of its ordinance and would then face destruction in the forfeiture of its rights of street occupancy. The City Council, however, was deaf to all argument, and Section 24 stood as written. A very short period suf-

ficed to demonstrate that the apprehensions of the Chicago Railways Company were only too well founded.

The property of the Chicago Consolidated Traction Company was subject to a bonded indebtedness secured by mortgage on its property of $6,750,000 par value and to a bonded indebtedness of its grantor and lessor companies of $5,883,000 par value. In December, 1910, when the property of the Chicago Consolidated Traction Company in Chicago was acquired, as hereinafter stated, the above indebtedness with accrued and unpaid interest aggregated over $14,500,000.

In the Fall of 1908 the holders of $1,284,000 par value of the bonds of the Chicago Consolidated Traction Company brought suits in the Superior Court of Cook County, Illinois, against the Chicago Railways Company to recover from it the principal and accrued interest due upon these bonds, upon the theory that it was a consolidation of or a successor to the Chicago Union Traction Company (which had guaranteed the bonds of the Chicago Consolidated Traction Company) and its lessor companies and hence was liable for the debts of those companies. Such proceedings were had in these suits that on May 23, 1910, judgments aggregating $1,440,144.78 were entered by the court against the Chicago Railways Company.

As soon as the Chicago Consolidated Traction Company was deprived of the financial support which it had theretofore received, first from the Chicago Union Traction Company and afterwards from its receivers, it was unable to pay its operating expenses and fixed charges, and in consequence, on June 1, 1908, made default in the payment of the interest then due upon its $6,750,000 par value of bonds aforesaid. The Trustee in the mortgage securing said bonds soon afterwards commenced a foreclosure suit in the Federal Court at Chicago, and such proceedings were had therein that receivers of the property of said Company were appointed and entered into possession of its property. Subsequently

the Trustees in the mortgages of the grantor and lessor companies of the Chicago Consolidated Traction Company, securing bonds aggregating par value as aforesaid $5,883,000, commenced separate foreclosure suits and the causes were consolidated with the above mentioned foreclosure cause and the receivership extended to each of these causes, and such was the condition of affairs at the time of the recovery of the judgments above mentioned.

The condition of the Chicago Railways Company when the judgments were recovered was nothing less than appalling. It had no working capital and it had no means of progressing with the work of immediate rehabilitation except through the sale of its first mortgage bonds, which could only issue upon certificates of the Board of Supervising Engineers certifying work done or materials furnished. The work of immediate rehabilitation was not then completed and an additional expenditure to that end of several millions of dollars was absolutely necessary. While its counsel were of the opinion that the decision of the Superior Court was wrong, yet it was impossible to stay the collection of the judgments unless it could appeal the causes and give an appeal bond with responsible surety, conditioned to pay the judgments, if affirmed by the Supreme Court.

Under the statute of Illinois the failure on the part of the Company, for ten days after execution sued out, to pay these judgments, entitled the holder of said judgments to dissolve the corporation and to have a receiver appointed therefor. This was not the only difficulty. If the judgment of the Superior Court was right and if the Chicago Railways Company was liable upon the bonds of the Chicago Consolidated Traction Company, it was, for the same reason, liable on account of the bonds of the grantor and lessor companies of the Chicago Consolidated Traction Company, because substantially all of these bonds had been guaranteed by the North and West Chicago Street Railroad Companies, and if the Chicago Railways Company was a consolidation of or a successor to the Chicago Union Traction Company,

it was also a consolidation of and a successor to the North and West Chicago Street Railroad Companies. In other words, if the decision of the Superior Court was right, the Chicago Railways Company was liable to the holders of bonds aggregating, with interest, more than $14,500,000, and to attempt to furnish bonds with responsible surety, against such an immense amount, or any substantial part of it, was a financial impossibility.

On the same day that these judgments were obtained, a contract creditor of the Chicago Railways Company commenced suit against the Company in the Federal Court at Chicago and obtained the appointment of receivers therefor.

At that time the Chicago Railways Company had sold $19,000,000 of its first mortgage bonds and had employed the proceeds in the work of immediate rehabilitation, and it had, in addition thereto, sold against bonds thereafter to be issued, interim certificates of the par value of $6,000,000, and of the proceeds of said interim certificates it had expended, in the work of immediate rehabilitation, all but about $2,200,000. There were a great many unpaid bills due for work done in the immediate rehabilitation approximately sufficient to exhaust this balance of about $2,200,000. To finish the immediate rehabilitation, at least $5,000,000, in addition to the balance of money on hand, was necessary, but the Trustee in the mortgage securing the rehabilitation bonds declined to further certify bonds on the ground that the above mentioned judgments were probably a lien upon the property ahead of bonds thereafter to be issued. Bankers, to whom the Company had sold the $19,000,000 of bonds and the $6,000,000 of interim certificates, absolutely declined to buy any more bonds until (1) the lien of the judgments upon the property of the Company should be released and the judgments paid or compromised so as to give no further annoyance to the Company; (2) the discharge of the receivership, so as to restore the credit of the Company; (3) the purchase or compromise or settlement of the bonded indebtedness of the Chicago

Consolidated Traction Company and its lessor and grantor companies at least to a point where there would not be outstanding any of such bonded indebtedness in excess of approximately $500,000, and (4) the acquisition of the system of street railways controlled by the Chicago Consolidated Traction Company, so far as located in Chicago, in order that the further menace of Section 24 of the ordinance should be forever removed.

It was absolutely necessary to raise the money with which to finish immediate rehabilitation within the time limit, to-wit, January 29, 1911, as otherwise the ordinance of the Company would be lost and stockholders and bondholders alike would be involved in one common ruin. The money for this immediate rehabilitation could only be raised in one of two ways; (1) By foreclosure of the mortgages upon the property of the Company, the issuing of receivers' certificates to the amount necessary to finish immediate rehabilitation, and a reorganization of the Company, which even then would not avoid the menace of Section 24 and which would probably mean the wiping out of the participation certificates, or (2) by complying with the requirements of the bankers as above outlined, necessitating the great additional burdens which it involved.

The management deemed it to be to the best interests of all concerned to accept the second alternative, and negotiations were undertaken to that end.

The space is lacking here to give all the details of these negotiations, but a brief summary of them here follows:

1. The City Council on October 10, 1910, passed an ordinance authorizing and requiring the acquisition by the Chicago Railways Company of that part of the system of street railways controlled by the Chicago Consolidated Traction Company, located in the City of Chicago, allowing a valuation of the physical property of the part so authorized to be acquired of the sum of $3,930,684.15, but excluding from the valuation all then existing ordinance rights or claims.

2. The title to the property of the Chicago Con-

solidated Traction System in the City of Chicago, free and clear of all claims and liens, was secured by the Chicago Railways Company, it paying therefor $3,930,684.15 par value of its first mortgage rehabilitation bonds and $270,000 par value of its consolidated mortgage bonds Series B; and issuing and delivering its adjustment income four per cent. bonds of the par value of $2,500,000 and its purchase money mortgage bonds of the par value of $4,073,000, the latter bearing interest until January 1, 1916, at four per cent. and thereafter at five per cent. The purchase money mortgage bonds were secured by a mortgage or trust deed of the Chicago Railways Company which, subject to the first mortgage bonds of the Chicago Railways Company, was a first lien upon the property of the Chicago Consolidated Traction System so purchased, and subject to the first mortgage bonds and the consolidated mortgage bonds of the Chicago Railways Company, was a lien upon the remainder of the property of the Chicago Railways Company. The adjustment income bonds, the interest on which was payable only if earned, and was non-cumulative, were secured by a mortgage of the Chicago Railways Company which was a lien upon the property so acquired subject to the first mortgage of the Chicago Railways Company and subject to the aforesaid purchase money mortgage bonds and a lien upon the other property of the Chicago Railways Company, subject to its first mortgage bonds and its consolidated mortgage bonds, and the purchase money bonds.

3. Out of the $3,930,684.15 rehabilitation bonds and the proceeds of a part thereof and out of said $270,000 Series B bonds there were paid certain receivers' certificates upon the system of the Chicago Consolidated Traction Company and certain costs and court expenses, and by means of funds from the same source the judgments in the Superior Court were compromised and all of the $6,750,000 of the mortgage bonds of the Chicago Consolidated Traction Company were acquired, excepting $54,142.50 par value of said bonds, for which adjustment income

bonds were taken, and excepting $257,042.50 of said bonds still outstanding, of which (1) $149,000 was and is in suit in the Municipal Court of Chicago, (2) $20,000 belong to the estate of Charles T. Yerkes, deceased, (3) $30,000 are held by the Inter Ocean Publishing Company as collateral to an indebtedness due from the estate of Charles T. Yerkes, and (4) $58,042.50 are held by divers parties.

So far as these bonds were acquired for cash they were acquired at the rate of $300 flat per bond, and the Chicago Railways Company now holds all of the property so acquired free from any claim excepting the $257,042.50 which is contested, and save that certain parties interested in the estate of Charles T. Yerkes are claiming that the purchase from the estate of a large amount of bonds at $300 flat per bond was not a valid sale. This contention counsel for the Company deem to be of no importance and negligible, as there can be no question of the fairness or of the validity of the purchase.

The management obtained the very best terms within its power and met all the requirements of the bankers, including the discharge of receivers, which occurred December 27, 1910, and they invite the closest investigation of their conduct in this regard, satisfied that they saved the property of the Chicago Railways Company on the best terms obtainable, and that not an unnecessary dollar was expended nor an unnecessary security issued for that purpose."

LITIGATION IN WHICH THE COMPANY IS INTERESTED.

The case of *Govin et al.* v. *Chicago Railways Company* in the Municipal Court of Chicago (in which it is sought to hold the Railways Company liable upon the guaranty of the Chicago Union Traction Company of 149 bonds of Chicago Consolidated Traction Company, the amount involved being $149,000, with interest at 4½ per cent. from December 1, 1907), proceeds upon the theory that the Company is the successor to or a consolidation of prede-

cessor companies, including the Chicago Union Traction Company, and therefore liable for all of their debts. No action in this case has been taken during the year covered by the report in question. The case was heard in the fall of 1911 before Judge Harry Olson and taken under advisement in December of that year, but up to the present writing the court has handed down no decision.

In the case of *Adelaide Yerkes et al.* v. *Chicago Railways Company et al.,* in which the purchase by Andrew Cooke of $4,464,000 4½% 30-year mortgage bonds of Chicago Consolidated Traction Company is called in question and in which an effort is being made to hold the Company liable for the amount of said bonds, less $300 per bond flat paid therefor by said Andrew Cooke, no action has been taken during the year covered by the report in question. The case is still pending in the Circuit Court of Cook County undetermined.

The three *mandamus cases,* brought in the interest of the respective towns of Oak Park, Maywood and River Forest, in which suits it is sought to compel the Company to exchange transfers with the County Traction Company, are still pending in the Superior Court of Cook County. All of these cases were recently heard before the Honorable Charles M. Foell and were taken under advisement by the court and no decision has yet been handed down.

In the case of the *Securities Company against Chicago Railways Company and others,* based upon $20,000 of the mortgage bonds of Chicago Consolidated Traction Company, in which it is sought to hold the Company liable upon the guaranty of the Chicago Union Traction Company of said bonds, and also to hold the directors of the Railways Company liable on the alleged ground that they

permitted the indebtedness of the Company to exceed the amount of its capital stock, no action has been taken during the past fiscal year and the case is still pending in the Circuit Court of Cook County undetermined.

The case of *Mandel and others against the Company,* in the Superior Court, in which it was sought, among other things, to set aside or prevent the acquisition of the property of the Chicago Consolidated Traction Company within the limits of the City of Chicago, has been voluntarily dismissed by the complainants. The Committee in charge of this litigation in a communication under date of February 25, 1913, to the holders of participation certificates Series 1, stated that at the time of the commencement of the aforesaid suit they believed that the rights of the certificate holders were in serious danger and that therefore the suit was instituted to protect their rights, but that after several conferences and mature deliberation they were now ready to recommend that the pending litigation be dismissed. This recommendation was followed and the suit was dismissed.

The management apprehend no serious danger to the Company in any of the above-mentioned pending litigations.

Respectfully submitted.

HENRY A. BLAIR,
Chairman of the Board of Directors,
Chicago Railways Company.

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